



# Shareholder Update

STORIES OF STRENGTH

JUNE 2019



Susan Paterson, Chair

## A WORD FROM THE CHAIR AND CEO

### Dear Shareholder

We are now at the end of our 2019 financial year and are making progress rebuilding the company. Last year, we set ourselves some ambitious goals, and while we haven't met our earnings expectation, we have significantly improved the business versus prior year.

Despite an increasingly challenging marketplace, we have made market share gains and increased sales and volumes this year. We are seeing benefits from numerous initiatives under our Strive strategy thanks to the hard work of everyone in the Steel & Tube team. Business units that are operating in highly competitive market conditions are the subject of intensive management focus to lift margins and manage risk.

We are generating cost savings from more efficient warehousing, freight, logistics and restructuring and expect operating costs to be down compared to the prior year, despite increases in rent following the sale and lease back of two sites and inflation pressures.

We have invested in people capability at all levels in the business and are focused on continually improving our product availability and service, and customer loyalty is building. Our distribution business offers a wide range of high quality products and services to customers; the strength of our metal flooring business continues; and improvements in our reinforcing offer have resulted in repeat business.

We want Steel & Tube to be the supply chain partner of choice for our customers and we will do this by offering the best customer service, range of products, technical expertise and quality and safety in the industry. These are the goals that every team member, from factory floor to warehousing, sales, dispatch, support office and management, is being encouraged to work towards.

### FY19 Trading Update and Guidance

We recently updated the market on our financial performance and our expected guidance for the current FY19 year ([click here to read](#)). Market conditions have been more challenging than expected

## UPCOMING KEY DATES

Financial Year End:  
30 June 2019

FY19 Results Announcement:  
23 August 2019

Annual Meeting:  
25 September 2019



Mark Malpass, CEO

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in the second half of the year and we have experienced an industry contraction in some market segments and sustained price pressures, both of which have adversely impacted on profit margins.

The changing market conditions and competitive pressure have created a more challenging trading environment for our business which means we have not been able to capture the margin growth we anticipated in the last half of the financial year. An industry contraction of some higher value markets has changed the mix of products we are selling and impacted on our margins. Intensive competition has also been a factor and we are mindful of the risk of a 'race to the bottom' with unsustainable pricing behaviour. We have taken a prudent approach to tendering for jobs and look to win them by offering a better solution or service. For example, we are seeing a growing number of customers choose us because of the long term benefits from our focus and investment in safety, quality systems, technical expertise, production capability and delivery performance.

In addition, and armed with better information, we have made an adjustment to our prior year normalised earnings. This does not affect our reported financial results for FY18 but had we known about it, would have lowered our starting point for our FY19 forecast expectations by \$4m.

As announced, the combination of the trading conditions and the accounting adjustment means that we are now expecting EBIT between \$15.5m and \$17.5m for FY19 (previously \$25m). While we are disappointed the efforts to date have not led to a better financial result, this still represents an improvement over the revised normalised prior year EBIT of between 20% and 35%.

We recognise that our performance is below the expectations of shareholders and we are determined to build on the changes made to date to turn the company around and return core business performance to acceptable levels. Market conditions are cyclical and the long term outlook for the industry looks good – steel is a preferred product and for many jobs, the only product.

We are very clear in our focus on those areas that will deliver the best products and service to customers and the best returns to shareholders. This newsletter highlights stories from across our business, demonstrating the work we are doing and the progress we are making to deliver the turn-around in financial performance.

**Susan Paterson, Chair**

**Mark Malpass, Chief Executive Officer**



## ISO 9001: 2015 CERTIFICATION FOR COMFLOR AND STAINLESS TEAMS

As part of Steel & Tube's ISO 9001: 2015 certification, the business is subjected to annual external revalidation audits annually. This year, 13 sites are in the process of being audited.

For the first time, ComFlor and Stainless were added to the audit schedule. Both sites were audited by Telarc and were successful at achieving the ISO 9001: 2015 certification. This is a major milestone that has wider benefits for the business and is testament to the hard work by management and site staff, supported by the Quality, Health, Safety and Environment team.

# DISTRIBUTION

Products are sourced from preferred steel mills and distributed 'as-is' through our national network of branches to customers. Businesses and product lines include piping systems, chain & rigging, rural products, fastenings and stainless and engineering steels.



## BUILDING A STRONGER, BETTER NETWORK

Steel & Tube is continuing to optimise its national network, generating operational and supply chain efficiencies and improving customer service.

- › In late April 2019, S&T Stainless in Christchurch moved into its new building at 401 Blenheim road. This brings it together with the wider Distribution business and provides operational efficiencies as well as enabling customer access to all Steel & Tube's Distribution products on the one site.
- › In Auckland, a new Chain & Rigging service centre has been opened on the S&T Distribution site at Stonedon Drive, East Tamaki. This offers a full range of products and services such as in-house testing of chains, slings, chain block, lever hoists and height safety equipment. The centre can also assemble chain slings for customers and will, in the future, manufacture wire ropes in-house.
- › Meanwhile, MSL Fortress opened on the Stonedon Steel & Tube site in late May, offering an extensive range of fasteners. This gives MSL an important presence in the East Auckland area and complements the Stainless products already on site.

The new Stainless hub at 401 Blenheim Rd, Christchurch



## MSL FORTRESS TAKES OUT AWARD FOR PREMIER SUPPLIER

For the second time in three years, MSL Fortress has won the Premier Supplier award at the 2019 BuildLink Conference & Awards, as voted by the BuildLink members.

BuildLink is focused mainly on the rural sector and has over 60 independently owned and operated stores nationwide, specialising in timber, hardware, kitset homes and farm sheds.

This award is a reflection of MSL Fortress' focus on being a quality supply partner to its customer base nationwide and is recognition for all staff and their hard work.



Marc Hainen - General Manager, Distribution and Mike Thompson - National Manager, MSL - Fortress Fasteners

## S&T STAINLESS WINS BACK BIG



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*The focus was on demonstrating how our products and service would help the customer get their job done – and the customer rewarded Steel & Tube with the order.*

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Winning back customers can sometimes be more satisfying than gaining a new one. The S&T Stainless team was recently successful in securing a large dairy project contract with a significant Hamilton customer. Although the customer had previously moved away from Steel & Tube companies for their main supply, the team worked closely together to give the customer the reassurance they needed to bring their business back.

The S&T Stainless Business Development Manager spent a lot of time communicating with the customer around what Steel & Tube can offer with the 'one company' approach and how this could benefit the smooth execution of the project. She also brought in S&T Stainless' Operations Manager to meet the client and demonstrate how our supply chain would work to meet the client's needs.

The focus was on demonstrating how our products and service would help the customer get their job done – and the customer rewarded Steel & Tube with the order. The focus on how what we do will deliver benefits for the customer was a real game changer and was a large part of our success.



## PUTTING THE CUSTOMER FIRST

One of our key strategic pillars is Putting the Customer at the Heart of Our Business. This means providing products and services that meet our customers' needs, leveraging our technical expertise to offer better solutions, and delivering on time and on spec. In Distribution, we have a variety of initiatives underway, focused on the customer.

**Net Promoter Score (NPS):** We have recently started NPS surveys to help us better understand our customers' needs. NPS scoring is a widely used metric that is based on one simple question – “How likely is it that you would recommend Steel & Tube to a friend or colleague?” Initial results are promising and have identified further improvements we can make to deliver the best possible products and service.

**Improving availability of our core range:** We have identified a core range of products and are ensuring that these are available when and where our customers need them. This is helping deliver more efficient inventory control and reducing the costs of carrying low demand stock items.

**Number 8 Wire loyalty programme:** Launched last year, this has been welcomed by our trade customers and is progressing well. Customers earn points when they purchase from Steel & Tube and these can be redeemed against future purchases.

# INFRASTRUCTURE

Products are processed by Steel & Tube before sale and typically are sold on a contract or project basis, including onsite installation services. Businesses and product lines include reinforcing and wire, coil processing including roofing and purlins, ComFlor and Composite Floor Decks Limited.

## PROUD TO CONTRIBUTE TO AWARD WINNING SCHOOL DESIGN



Steel & Tube was a supplier to the award-winning Freemans Bay School, which is one of a number of schools designed by RTA Architects. Using bold colours, including Colorsteel® roofing and Steel & Tube cladding, the architects were able to achieve a striking design that references the school's proud multi-cultural heritage and complements the diversity of the neighbourhood.

Architect Moshin Mussa from RTA comments: "It is always challenging on education projects to create cutting edge architecture with limited budgets and material restrictions. On this project we used the colour scheme to represent the school's identity, but also to enhance the architecture. Colour is a relatively cost effective way to bring a project to life".

## CFDL RATED TOP CONTRACTOR BY NAYLOR LOVE



CFDL has again enhanced its reputation for service delivery, after being recognised by key client, Naylor Love, as a "top rated contractor" on the 44 Symonds Street Block B project.

Naylor Love is a top performing commercial construction company. After completing a project, the company carries out an assessment of the subcontractors involved – in this case 28 of them. Subcontractors are assessed on 11 categories, including quality, safety practices and competence, and timeliness of performance.

CFDL was one of three sub-contractors on the project to achieve the best possible rating.

Happy Chifamba, CFDL Auckland Manager says: "This project was particularly difficult because it was an indoor job in its architectural phase. This meant our team had to ensure they did not damage the existing fit out or finishings, as well as completing the job safely. We planned the safety system really well and ensured good coordination between the contractor and the other trades. Although access was an issue, through proper coordination between our construction manager, materials coordinator and Naylor Love's team, it was a seamless delivery and load out onto the steel structure."

**“ CFDL was one of three sub-contractors on the project to achieve the best possible rating. ”**

## STEEL & TUBE CONTINUES ITS SUPPORT FOR FIRST FOUNDATION



Steel & Tube CEO, Mark Malpass with First Foundation scholarship recipients Patrick Steele and Kimberley Jayapalen.

Steel & Tube is once again proud to be a supporter of the First Foundation and recently recognised the latest recipients of Steel & Tube's First Foundation scholarships - Kimberley Jayapalen and Patrick Steele – both family members of Steel & Tube employees.

The Foundation brings together New Zealand businesses, individuals, schools, and students to achieve the Foundation's mission of helping academically talented students worthy of support to achieve their potential through tertiary

education and to prepare them to positively influence and benefit their communities. So far 612 students have benefitted from the scholarships and opportunities the Foundation and its partners offer.

*“ Kimberley and Patrick are two impressive young people who want to challenge themselves and it's great that we can play a part in helping them towards their tertiary qualifications. ”*

Steel & Tube General Manager People & Culture, Anna Morris.

## MAKING STEEL & TUBE AN EVEN BETTER PLACE TO WORK

Having a great culture and strong employee engagement are essential to the success of our business.

That's why we've recently introduced three project teams focused on:

- 1 WELLNESS, RESPECT AND APPRECIATION
- 2 IMPROVING COMMUNICATIONS AND COLLABORATION
- 3 ENSURING OUR PEOPLE HAVE THE RIGHT TOOLS, TRAINING AND SUPPORT TO DO THEIR JOBS.

These teams are made up of employees who are volunteering their time to make Steel & Tube an even better place to work.



# INTRODUCING OUR TEAM

Steel & Tube's leadership team has been rebuilt and strengthened, with a number of new roles and appointments. Anna Morris and Claire Radley both joined the company in the last six months, as GM People & Culture and GM Strategy respectively.

## ANNA MORRIS: GM PEOPLE & CULTURE

**As GM People & Culture, Anna's role is to make sure that S&T is staffed by talented people who are motivated and supported to take the company to the next level of performance. On a day to day basis this involves everything from recruitment, training, development, payroll and establishing the right culture.**

Anna started her career as an employment lawyer, including working in-house for Unilever in Australia. She then stepped into the construction sector, working for Australia's largest construction company before moving to Fletcher Construction as Group employment lawyer and then Head of People and Performance.

Anna's ambition is for S&T to challenge the norms of what can be achieved in this industry. "I want the market to talk about our character – to say we've got talented people, we're obsessed with customer service, we've got the weight of a NZ listed company but without the corporate bureaucracy, and we set people up here to do great work in a

lean fast paced environment. This is my vision for our culture."

Some of the initiatives being rolled out in this area are more training; more visibility of the Leadership Team; more focus on culture and the type of organisation we want to be; and supporting the Step Up Engagement Working Team to strengthen the onboarding programme.

Outside of work, Anna spends as much time with her young family as possible. "They amuse me enormously, keep me positive and constantly remind me of my own development areas!"



## CLAIRE RADLEY: GM STRATEGY

**With a PhD in Atmospheric Physics, strategy of a steel company is probably not where Claire saw herself working when she left Princeton University. But after being recruited by international management consultancy, McKinsey & Co, Claire found her passion, working across a range of industries on projects in operational excellence, transformation, acquisitions, and strategy.**

Claire joined Steel & Tube in January 2019 and says the culture at the company is amazing. "I've never worked in an environment where people are so open and eager to work together to improve the business."

The GM Strategy role is a new one for the company. It puts Claire in charge of driving the Strive programme and working with the Board and Leadership team to determine strategic direction, including identifying new growth opportunities.

Claire says her goal is to see Steel & Tube reach its full potential. To her that means not only delivering on Strive projects over the next 2 years, but also significantly growing the company and launching innovative products and new service delivery methods to meet customer's needs.

When she's not at work, she loves to travel with highlights from the past year including Cuba and Slovenia.



# STRIVING FOR EXCELLENCE

- › SAFE AND HEALTHY WORK ENVIRONMENT
- › QUALITY PROCESSES
- › QUALITY PRODUCTS
- › CONTINUAL IMPROVEMENT



- › LEVERAGE OUR PROCUREMENT AND SUPPLY CHAIN SCALE
- › EXCELLENT INVENTORY MANAGEMENT
- › EMPLOY DATA ANALYTICS TO BETTER SERVICE OUR CUSTOMERS
- › DRIVE EFFICIENCIES

- › PRODUCTS AND SERVICES TO MEET CUSTOMER NEEDS
- › LEVERAGE OUR TECHNICAL EXPERTISE
- › DELIVERY ON TIME AND ON SPEC



- › DEVELOP LEADERS
- › EVERYONE MATTERS
- › RECOGNISE PERSONAL AND TEAM CONTRIBUTIONS
- › PROVIDE A REWARDING WORKPLACE

## OUR GOAL

TO BE THE LEADER IN BUYING, SELLING, PROCESSING AND PLACING STEEL PRODUCTS IN NEW ZEALAND

35 LOCATIONS ACROSS NEW ZEALAND  
>15,000 CUSTOMERS • ~1,000 STAFF

Steel & Tube offers New Zealand's most comprehensive range of steel and associated products through a nationwide product distribution and processing network, so no matter where you are in the country we can deliver product to you. Our National Support Centre in Wellington provides corporate, management and support functions.



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[www.steelandtube.co.nz/enews](http://www.steelandtube.co.nz/enews)

